

# The Impact of Covid-19 on our Economy

Paul Isely

# Primary Causes for Economic Slowdown

- Vast Majority of states instituted some restrictions on gatherings, restaurants and bars around mid-March
- This advanced to some level of stay-at-home order with varying degrees of what is “essential” – for instance only 20% of states effectively list construction as “non-essential”
- The most common end date for stay-at-home orders is April 30<sup>th</sup> with a few states later more states are starting to shift that date to May and June.
- Based on Europe as orders end there will be gradual and phased loosening

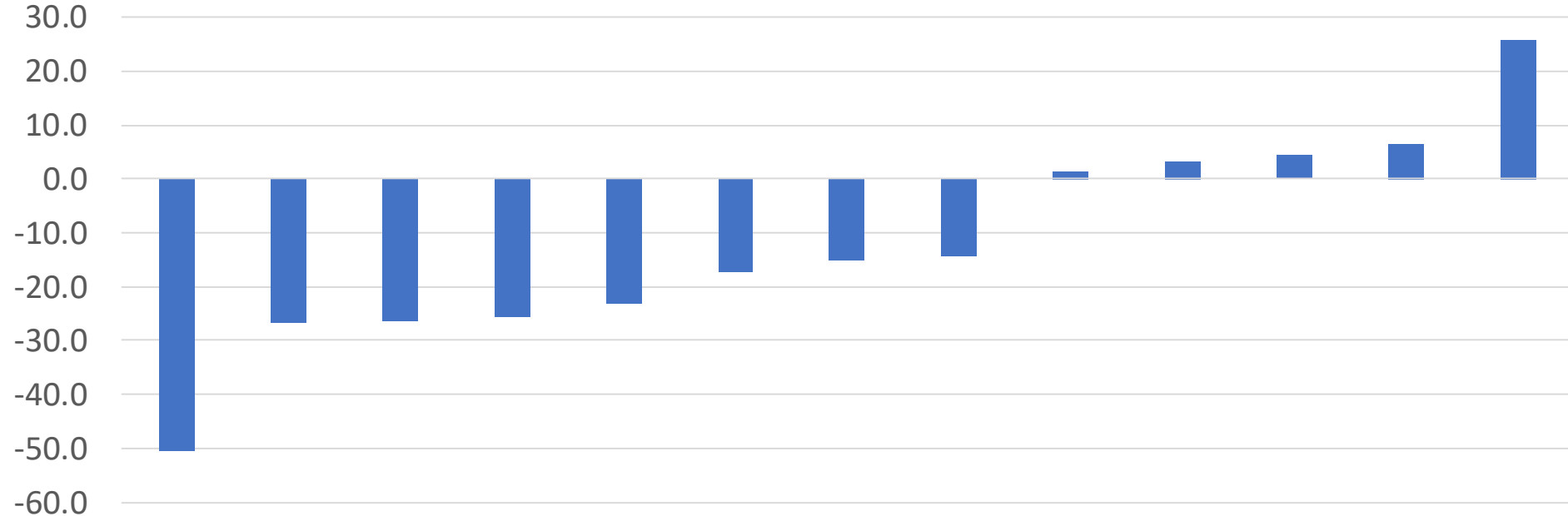
Source 1: Journal of Light Construction

Source 2: Executive Orders accessed on [litter.com](https://www.litter.com)

# First Signs of the Effect -- Retail

Source: US Census

March vs February Percent Change Retail Sales

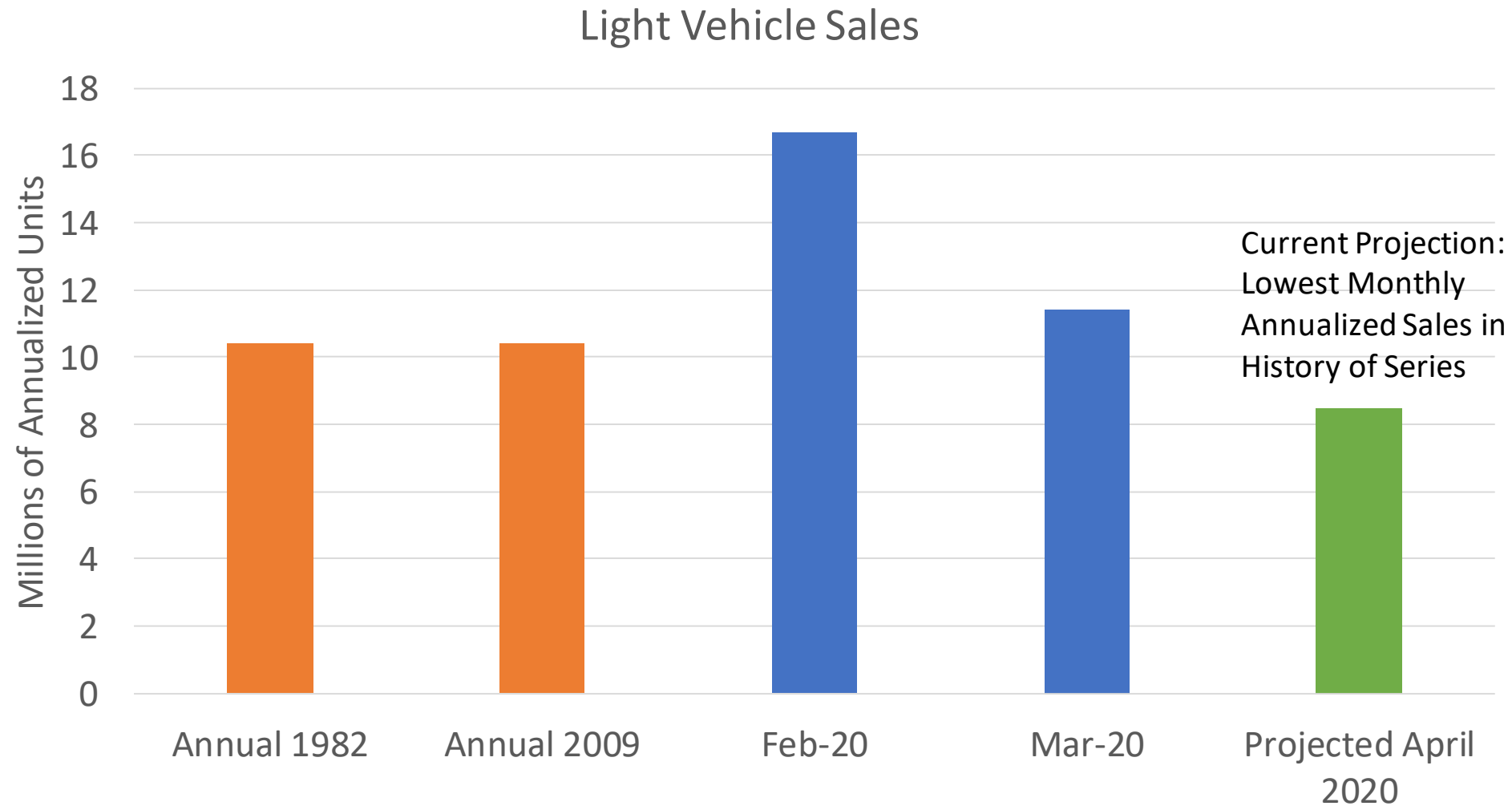


Clothing  
Furniture  
Restaurants/Bars  
Motor vehicle  
Sporting goods  
Gasoline stations  
Electronics/Appliance  
Miscellaneous  
Building/Garden  
Nonstore retailers  
Health/personal care  
General merchandise  
Food/beverage

NOTE: March Year  
Over Year Gives  
Essentially the Same  
Chart

# What If Entire Month?

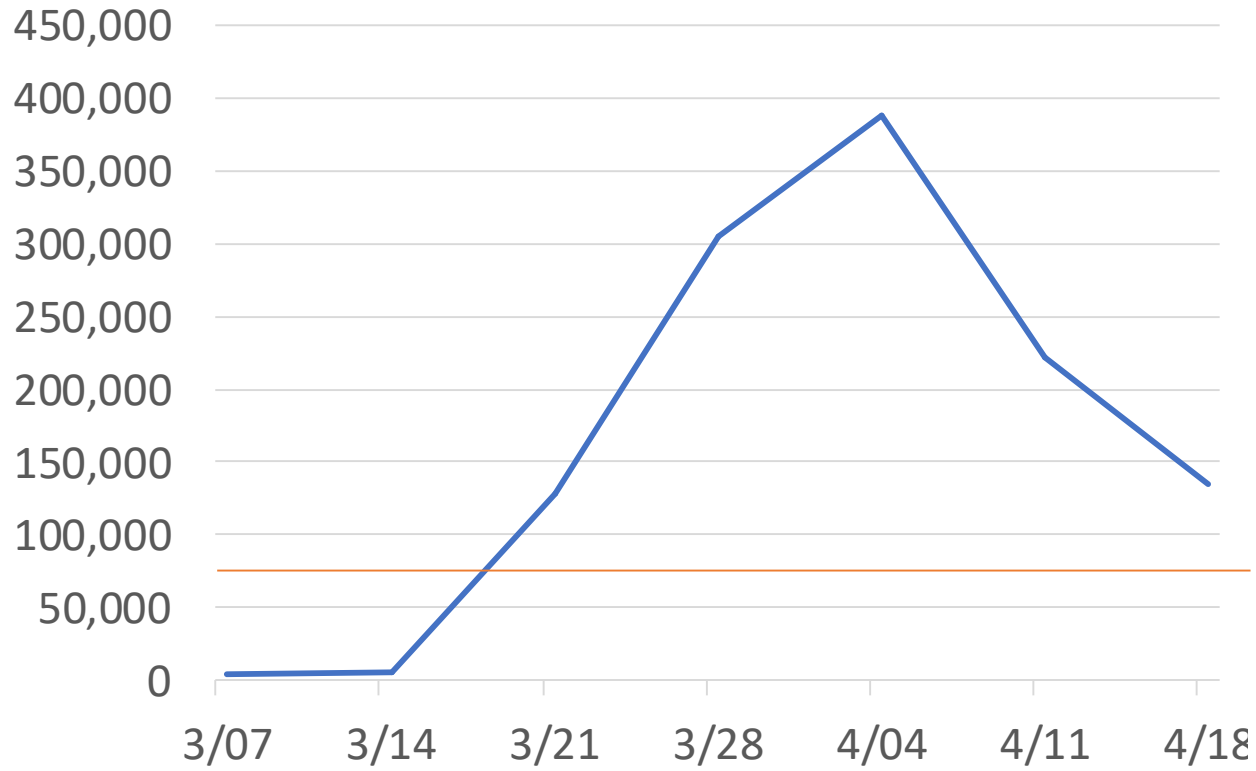
SOURCE: BEA  
Projects: Isely



# Unemployment Claims and WARN Notices

## MICHIGAN

New Unemployment Claims  
Michigan



Michigan Unemployment Likely  
Around 22% Currently

PERIOD	WARN NOTICES	EMPLOYEES
6 Weeks after Lehman Fails	26	6,418
2019	27	6,914
Last Two Weeks March 2020	34	6,675

Source: MILMI and

# Current and Potential Magnitude

Source: BLS

## MICHIGAN -Employment, Wages, and Establishments 2<sup>nd</sup> Quarter 2019

Industry	Avg Employment	Avg Weekly Wage	Number of Establishments	Average Number Employees
Accommodation and Food	386,001	\$362	19,490	19.8
Ambulatory Health Care	206,495	\$1,123	14,393	14.3
Arts/Entertainment/Rec	57,355	\$595	3,766	15.2
Construction	174,419	\$1,146	21,197	8.2
Manufacturing	629,792	\$1,260	16,969	37.1
Retail Trade	462,594	\$609	34,418	13.4

# Is there Good News?

- In Michigan the average worker able to get unemployment benefits in the three most affected industries will eventually receive unemployment benefits greater than their normal income in the month of May and June
- \$1,200 stimulus checks that have started to hit bank accounts
- Money from PPP and other business support programs is just starting to flow
- CARES act borrows \$2 Trillion to counter a drop in economic output in March through June estimated to be up to \$2.5 - \$3.0 Trillion
- West Michigan renters paid rent in April at a higher rate than the United States

# Two Cases – Assuming no miracle cure

- Best Case

- April will be really bad with close to 25% unemployment when it is measured in early May.
- Strong Unemployment benefits, stimulus checks, and some business reactivation improves May
- Steady improvement after – but likely no group events and weak travel industry into the Fall
- Looking back at the end of the year the recession is slightly larger than 2008-09

- Worst Case

- April will be really bad with close to 25% unemployment when it is measured in early May
- Strong Stimulus is too early because economy does not reactivate as virus comes in waves
- Instead of May – August showing strong improvement is weak and halting during successive lock downs.... Steady improvement does not happen until winter, but April will still be the worst month
- Looking back at the end of the year the recession is double the recession seen in 2008-09



# State Budget

## CAUTION BACK OF ENVELOPE CALCULATIONS

### Best Case

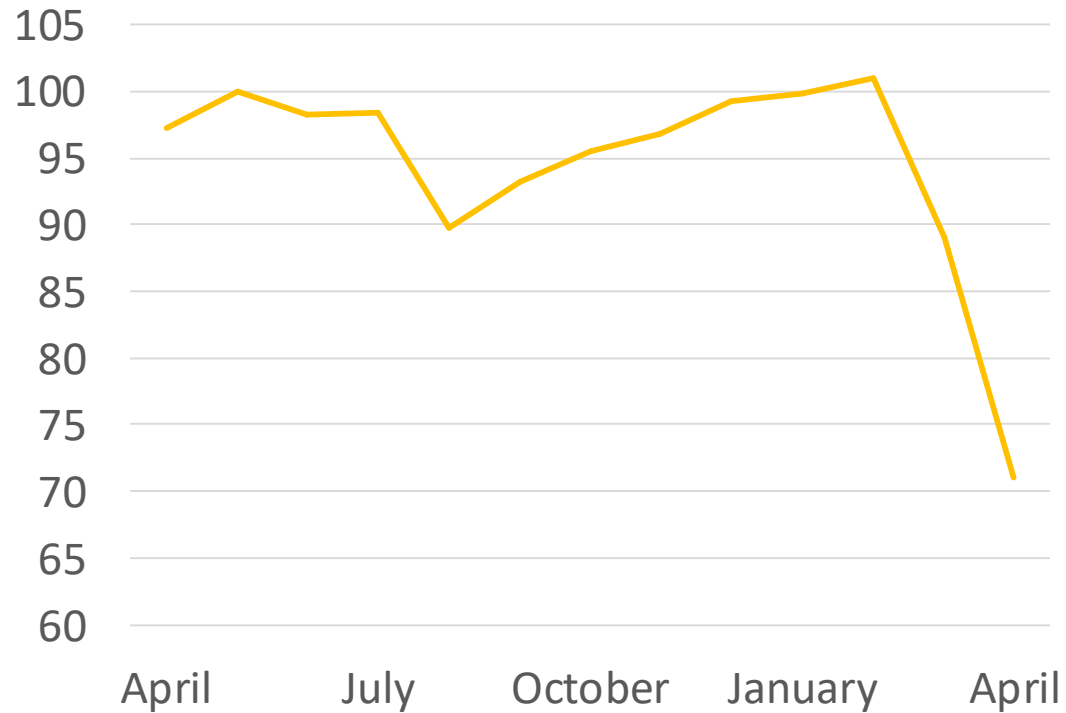
Unemployment Benefits	-\$3 Billion
Other COVID Costs	-\$1 Billion
Gas Tax	-235 Million
Income Tax	-600 Million
Sales Tax	-\$1.3 Billion
<b>TOTAL BUDGET HOLE 2021</b>	<b>\$ 6 Billion ~ 10%</b>

### Worst Case

Unemployment Benefits	-\$4 Billion
Other COVID Costs	-\$2 Billion
Gas Tax	-470 Million
Income Tax	-1.5 Billion
Sales Tax	-\$2 Billion
<b>TOTAL BUDGET HOLE 2021</b>	<b>\$ 10 Billion ~15-20%</b>

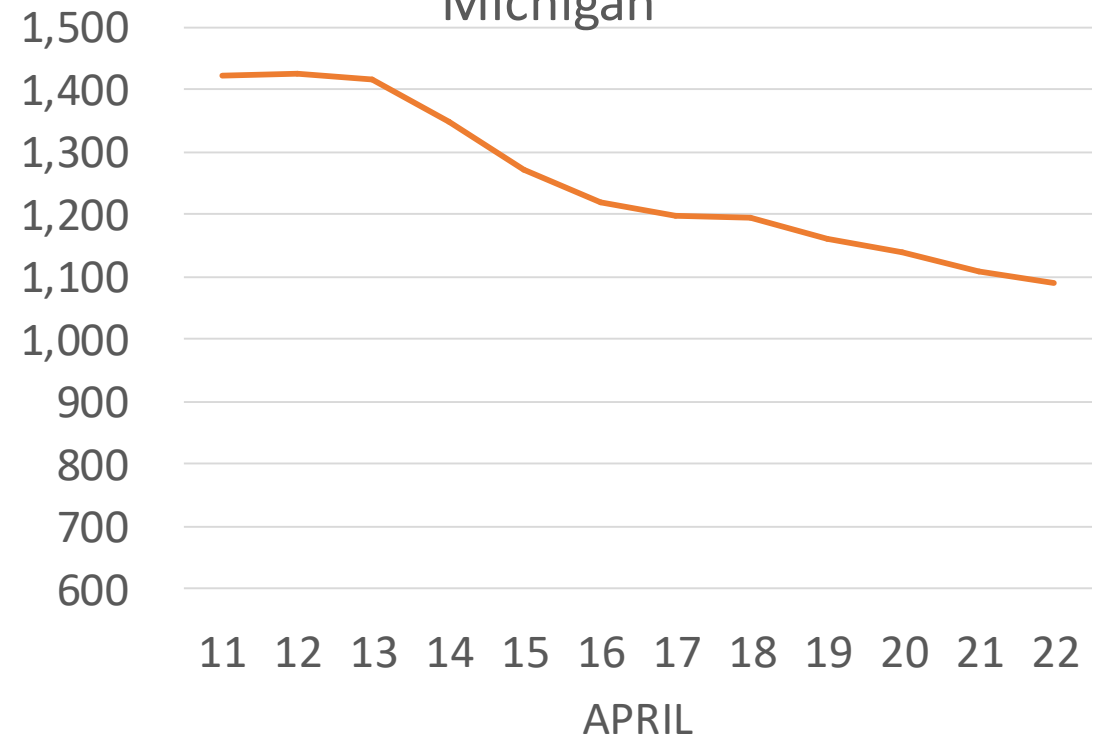
# Best Case or Worst Case?

University of Michigan Consumer Confidence Index



Source: U of M

COVID Patients on Ventilator in Michigan



Source: State of Michigan COVID website

# Take Aways

- Because of the lag in Unemployment benefits and stimulus checks, combined with the level of “Stay at Home” needed to bring the virus back to a manageable level, April will be by far the worst month.
- Stimulus Checks, Industries Coming Back Online, Unemployment Benefits making individuals nearly whole will pour starter fluid into the economy if it is ready
- Expect industries that can accomplish social distancing to slowly come back online during May:
  - Lawncare
  - Outdoor Construction
  - Some Manufacturing

Questions